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Opportunities to buy foreclosed — or soon-to-be foreclosed — luxury homes are on the rise. But watch out for the pitfalls that could sour what seems like a sweet deal.

"We're certainly seeing more of those properties coming to market and more of those properties foreclosed on," says Rick Sharga, senior vice president of [RealtyTrac Inc.](#), publisher of the largest database of foreclosure and bank-owned

property records.

[Foreclosures of homes](#) valued at more than \$1 million increased by 90 percent between 2007 and 2010, a RealtyTrac analysis found. Banks had been reluctant to foreclose on higher-end properties due to the limited number of potential buyers, but Sharga says he expects more higher-end foreclosures in the future.

"There are bargains to be had," Sharga says. But "unless you're absolutely in love with the property," hold off until you know you're getting a great deal, he notes. Foreclosures sold at prices an average 27 percent below non-foreclosed property in the first quarter of 2011, he says.

James Reid, a businessman from Anchorage, Alaska, was looking to pick up a house in the Seattle area to avoid staying in hotels on his regular trips there. He and his wife found a property on Puget Sound that had sold for \$1 million-plus and was on its way to foreclosure. While the price to get the two-bedroom, two-bathroom waterfront home was discounted in a short sale to about \$750,000, Reid said he made a cash offer of \$650,000.

"We were reluctant to purchase a short sale home because of the horror stories we've heard about closing, negotiations, time," he said. The Reids were also building a vacation home and didn't want any more hassles.

They learned that while the seller might be okay with their offer, it was still up to the mortgage holder to agree to the price, since a short sale is an agreement to accept less money than is owed to avoid the more cumbersome and lengthy foreclosure process. The first mortgage holder agreed. But a second mortgage holder that did not. After a lot of negotiating, the deal was sweetened to \$730,000 and closed in about three months, Reid said.

The increasing opportunities at this level in the market has also brought in a different kind of buyer, real estate observers say. Investors, not would-be homeowners, are snapping up higher-priced foreclosures. A RealtyTrac analysis found the biggest percentage of foreclosures with mortgages of \$1 million or more are in California (35 percent), Nevada, (14 percent), Florida (11 percent), Arizona (11 percent) and Illinois (nine percent).

Several real estate observers said the hottest markets for foreclosures in the high-end jibe with the RealtyTrac data. They are South Florida, on both the Gulf Coast and Atlantic Coast, San Diego and Las Vegas.

"The opportunities in Sarasota are unbelievable right now," said Kathy Marlowe, a Sarasota, Florida, agent with an expertise in high-end distressed properties. "You can purchase that \$2 million dollar home for about \$1 million now."

When the most expensive homes come up for sale, they move quickly, says Robert Vacko of [Executive Asset Management](#), a firm which handles sales of distressed property. "These high-end foreclosed assets are on the market for fewer days than lower-end homes," he says. "We are able to move our portfolio of high-end assets twice as fast as lower-end priced assets. Additionally, we often will see multiple offers for the higher-end assets." Bidding wars are not uncommon.

Buyers of foreclosures and short sales tell tales that typically have a bit more drama than the traditional home purchase. Here is some advice from real estate experts for would-be buyers of high-end foreclosures.

**Work with a real estate agent who has specific expertise with distressed properties.** On the [National Association of Realtors](#) website, you can filter agents who are certified in foreclosures and short sales. Interview at least three and ask about their history with foreclosure sales.

**Do your homework.** Find out what other similar properties are now selling for to determine whether you're really getting a deal. Real estate agents can spit out reports for you so you can see comparable home sales over the past year or two. If you want to start doing your homework before you're working with an agent, you can get an idea from sites including [Zillow.com](#), [Trulia.com](#) and [Domania.com](#). Looking at government property records will show you previous sales, but tend to not let you extract data in a way that allows you to search an area.

**Be patient.** Few people know more about real estate than Jim Gillespie, who is chief executive officer of [Coldwell Banker](#). He purchased a distressed property in California a few years ago for a family members. He experienced delays due to the sometimes tangled mess left by the previous owner, including other unpaid loans. "We had to wait and wait and wait," he says.

Gillespie's advice to anyone trying to buy a distressed property? "You need to be prepared to spend a lot of time waiting." His offer was accepted five months after it was made. Gillespie said the home was purchased well below the previous purchase price and at a discount to the market, but three years later — due to market conditions — it remains at about the same value.

**Don't assume a high-priced house hasn't been neglected.** Get a thorough inspection with repair estimates, or go through the property with a contractor to determine how much work must be done. Be sure to find out how long the house was unoccupied, which could contribute to potential problems. Consider additional testing if there is suspicion of mold, says Kathleen Kuhn, president of [HouseMaster Home Inspection Service](#).

A HouseMaster inspector in Arizona recently helped a buyer avoid potential disaster with a foreclosed home. The property looked sound from the exterior, but the inspector discovered a heave in the foundation. It was a serious structural issue that would have cost more than \$10,000 to repair. The bank didn't want to renegotiate, Kuhn said, so the deal was scuttled.

**Be prepared for the competition.** There's a good chance you'll be going toe-to-toe with an investor or other buyer who will compete with you on these properties. Michael R. Dover, an attorney at the Chicago law firm [Kelley Drye & Warren LLP](#), said investors aggressively go after pricier properties. They pursue the purchases as soon as an initial notice to foreclose is filed and then try to work out a deal with the bank before the property actually is foreclosed. You'll need to act fast.

**Have your financing ready.** It can be more difficult to get financing for homes that have been foreclosed or are involved in a short sale. Robert Fox bought a condo on the Intracoastal Waterway in Boca Raton, Florida, and had to wait six months to get his all-cash offer accepted. His advice to buyers looking at properties where the bank is making the decisions: "Keep looking for other properties instead of wasting six months waiting for an answer."

Experts suggest getting together as much cash as possible for your offer, which will help with the lender and give you a more competitive offer if others show interest. If the foreclosure is not yet completed, see if it is possible, and the terms are acceptable, to assume the seller's mortgage in a short sale.

**Don't be too picky.** When it comes to high-end foreclosures, particularly at the very high end, be prepared to encounter the customized quirks of the former owner.

"Properties are typically custom-designed for a unique buyer with unique tastes and specific likes, and some are very unusual and border on the weird, often so very specific to the initial buyer that resale is tough," says Mark Stapp, executive director of the master of real estate development program at the [W. P. Carey School of Business](#) at Arizona State University. "No one else likes the details or layout; banks end up with weird high-end properties with expensive finishes, but not a wide range of buyers who like the weird characteristics."

So if you like bowling alleys ([two lanes](#)) or [3,000 square-foot log cabins](#), a foreclosure might be in your cards.